Annual report 2006

# POWER CORPORATION
# SUPERANNUATION PLAN

## HIGHLIGHTS

- An ad hoc increase of 2.3% is declared by the Lieutenant-Governor-in-Council. Ad hoc increases have been granted in 15 of the past 22 years and have ranged from 1.0% to 2.9%.
- The provincial government introduces legislation to set indexing of the Power Corporation Superannuation Plan — and other related provincial plans — to 70% of the increase in the consumer price index (CPI) for Saskatchewan.
- Annual benefit statements are distributed for the year ending December 31, 2005, to all active and deferred members. These statements reflect basic pension information.
- A communication survey is mailed out to all plan members. It assesses the current methods of communication and gives plan members an opportunity to provide feedback. About 40% of members respond, with the majority feeling that the current level of communication is sufficient.
- SaskPower launches a web-based pension calculator for active employees. The tool helps employees plan their retirement by running various age-based scenarios.

### FACTS

- The Power Corporation Superannuation Plan's oldest member was born in 1908.
- Within the Plan, 34% of members are women (8% superannuates and 26% widows) and 66% are men (almost all superannuates).
- According to the 2006 Canadian Pension Fund Investment Overview, the Plan is ranked 137th in Canada in terms of net assets and is the 8th largest pension plan in Saskatchewan.

## MISSION STATEMENT

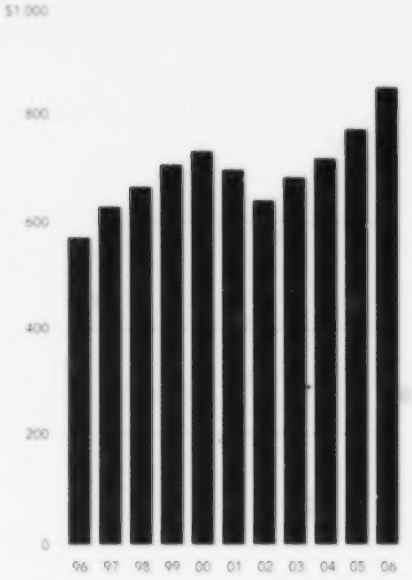
To provide continuous pension benefits for plan members through prudent stewardship of assets, liabilities and effective plan administration in accordance with current legislation.

# OVERVIEW

## Financial highlights

| (in millions) | 2006 | 2005 |
|---|---|---|
| **Investments, at market** | | |
| Short-term securities | $ 5 | $ 6 |
| Bonds | 273 | 262 |
| Equities | 571 | 503 |
| **Receivables** | 8 | 2 |
| **Cash** | 1 | 1 |
| **Total assets** | 858 | 774 |
| **Liabilities** | 6 | 1 |
| **Net assets available for benefits** | 852 | 773 |
| **Accrued pension benefits, end of year** | 839 | 770 |
| **Surplus** | $ 13 | $ 3 |

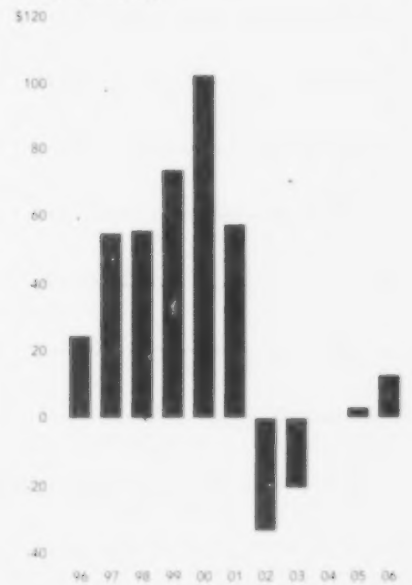
**Net assets available for benefits at December 31**
(in millions)




## Change in net assets available for benefits

| (in millions) | 2006 | 2005 |
|---|---|---|
| **Increases:** | | |
| Investment income | $ 28 | $ 23 |
| Increase in market value of investments | 93 | 67 |
| Contributions | 2 | 7 |
| | 123 | 97 |
| **Decreases:** | | |
| Superannuation allowances | 42 | 41 |
| Refunds and transfers | 1 | - |
| Administration expenses | 2 | 2 |
| | 45 | 43 |
| **Change in net assets** | $ 78 | $ 54 |

**Surplus/(deficit) at December 31**
(in millions)




## Investment performance

| Rates of return (%) | 2006 | 2005 |
|---|---|---|
| Plan actual rate of return | 16.1 | 13.2 |
| Plan benchmark | 13.8 | 10.8 |
| Four-year rolling average return | 13.3 | 8.5 |
| Four-year rolling benchmark | 11.6 | 6.6 |

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*This report summarizes certain provisions of the Power Corporation Superannuation Plan. Please note that this report does not create any rights to benefits not provided for in the actual terms of the Plan. In the event of any conflicts or omissions the legal requirements of the Power Corporation Superannuation Plan will govern in all cases.*

# Chair's message

I am pleased to submit the 2006 Annual Report of the Power Corporation Superannuation Plan. This publication is intended to provide information to members concerning the status and administration of their pension plan.

The Plan experienced solid financial results in 2006, largely due to strong investment performance. The Plan achieved a 16.1% rate of return on its investments, exceeding the Plan's benchmark of 13.8%. The Plan provided pensions to 1,713 superannuates and survivors totalling $42 million, compared to 1,724 superannuates and survivors totalling $41 million in 2005. The average annual pension in 2006 was $24,896, compared to $23,669 in 2005. However, 55% of beneficiaries received less than this amount in 2006. There were 20 members eligible for a deferred pension in 2006, four less than in 2005. Also, 496 members remained employed in 2006, down from 527 members in the previous year.

In the fall of 2006, the Government of Saskatchewan introduced legislation that would amend the Plan to provide for yearly increases to members' pensions equivalent to 70% of the annual increase in the Saskatchewan consumer price index (CPI). This is intended to replace the past ad hoc process for benefit improvements. The legislation is expected to pass in the spring of 2007. Therefore, in accordance with generally accepted accounting principles, the proposed Plan amendment to provide 70% indexing was included in the calculation of Plan liabilities at December 31, 2006. The result of this change was an increase to the Plan's liabilities of $41 million as calculated by the Plan's actuary.

The Plan ended the year with net assets available for benefits totalling $852 million, an increase of $78 million from 2005. Accrued pension benefits at the end of 2006 amounted to $839 million, up $69 million from 2005. The Plan's 2006 financial position is an accounting actuarial surplus of $13 million, up from a $3 million surplus in 2005. In 2006, SaskPower did not make an employer contribution to the Plan. However, the Corporation has requested that the actuary prepare a new funding valuation and recommendation for the Plan as at December 31, 2006. This report will be used by SaskPower in its decision regarding an employer contribution in 2007.

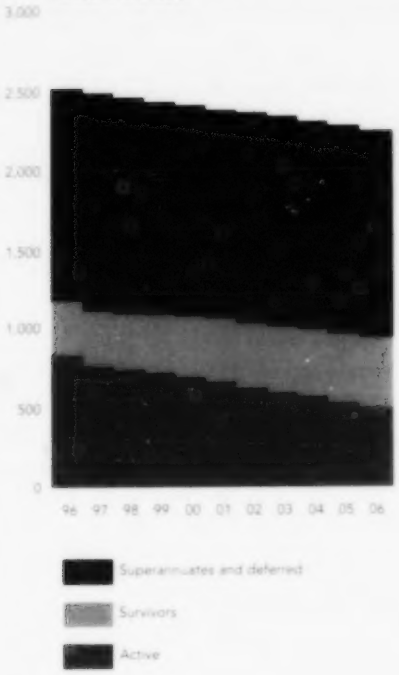
To assist members in planning for retirement, a new online pension calculator was launched by SaskPower in the fall of 2006. This tool allows active employees to examine the impact of potential benefits under different pension options and assumptions for the future. Nevertheless, all members who are considering and preparing for retirement are urged to seek professional financial planning advice from qualified sources.

I want to recognize and thank my Board colleagues and the staff of SaskPower who manage and administer the Plan for their significant commitment and contribution. I look forward to our ongoing relationship as we continue to work for the benefit of Plan members.

W. Davern Jones, Chair
Power Corporation Superannuation Board

**Plan membership**

(number of members)




**Pensioners by age**

| | |
|---|---|
| 70-79 | 41% |
| 60-69 | 33% |
| 80-89 | 19% |
| **60 and under** | **4%** |
| 90 and over | 3% |

## PLAN PROFILE

The Power Corporation Superannuation Plan (the Plan) originated with the passing of *The Power Commission Superannuation Act* in 1944. This defined benefit pension plan is governed by *The Power Corporation Superannuation Act* (the Act) of 1950 and *The Superannuation (Supplementary Provisions) Act*. It is maintained by the Saskatchewan Power Corporation (SaskPower) for employees who were hired prior to October 1, 1977, and who did not elect to transfer to the defined contribution plan before October 1, 1978.

Through the Act, SaskPower guarantees each member's basic pension regardless of the financial status of the Plan. The value of the basic pension depends on a number of factors, including salary and years of service at retirement. Optional pension forms such as joint life and 75% or 100% and enhanced bridging require the consideration of additional factors, such as a member's age and the spouse's age.

The Plan is financially sound and holds a well-diversified portfolio of debt and equity investments. Net assets totalled $852 million at year-end, an increase of $78 million over the previous year. Of this total, approximately $494 million or 58% of assets were invested in Canadian bonds and equities, while the remaining 42% was invested in 29 countries throughout the world. This diversification helps to maximize the return on assets and minimize the impact of volatility in individual markets.

## PLAN DEMOGRAPHICS

The Plan has been substantially closed to new members since October 1, 1977. As a result, the number of active members has decreased steadily, primarily through retirement. The average service time for active members is 32 years. Therefore, it is expected that the number of active members will continue to decrease in the future, as more members begin to receive a pension.

Approximately 77% of total members are receiving benefits. In 2006, there were 1,713 receiving a pension, 20 eligible for a deferred pension and 496 active members.

Included in the Plan's active membership are SaskPower employees, as well as employees of SaskEnergy or other corporations that have been designated institutions by the Lieutenant-Governor-in-Council. Effective June 28, 2001, these institutions are required to make contributions at a rate recommended by the Plan actuary.

Both members and employers (SaskPower and designated institutions) have contributed to funding. In 2006, the Plan received contributions of approximately $2 million, the majority of which were made by employees. Since inception, the cumulative total of employer contributions is 53% or $128 million; the cumulative total of employee contributions is 47% or $113 million.

During the year, the Plan paid $42 million in benefits to approximately 1,713 superannuates and survivors.

## Plan annual pension amounts
As at December 31, 2006

| Annual pension | Number of plan members |
|---|---|
| 0 - $ 9,999 | 228 |
| $ 10,000 - $ 19,999 | 418 |
| $ 20,000 - $ 29,999 | 588 |
| $ 30,000 - $ 39,999 | 284 |
| $ 40,000 - $ 49,999 | 105 |
| $ 50,000 - $ 59,999 | 42 |
| $ 60,000 - $ 69,999 | 27 |
| $ 70,000 + | 21 |
| | 1,713 |
| **Average annual pension** | **$ 24,896** |
| **Median annual pension** | **$ 23,932** |

At minimum, an actuarial valuation for funding purposes is prepared every three years. It ensures that Plan assets and contribution levels are adequate to provide long-term benefits. As the corporation responsible for providing retirement benefits, SaskPower uses this valuation to determine its funding requirements.

As the Plan continues to mature, the ratio of active members to pensioners will continue to decline. This maturation is also evident in the increasing cost of pensions compared to contributions, making the Plan more reliant on investment returns.

## SIGNIFICANT EVENTS

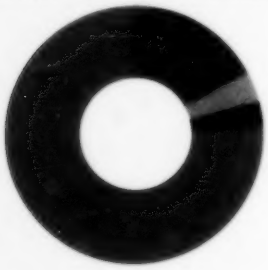
Annual benefits statements: During 2006, benefit statements were distributed for the year ending December 31, 2005, to all active and deferred members. These statements reflect basic pension information and are expected to be distributed annually.

Ad hoc increase: Although the Plan is not formally indexed, the Government of Saskatchewan annually reviews the level of pension paid to superannuates. As a result of this evaluation, the Lieutenant-Governor-in-Council may increase retirement allowances up to the increase in the consumer price index (CPI) for Saskatchewan in the preceding year. Increases are subject to the maximum increase permitted under *The Income Tax Act* (Canada).

These adjustments, commonly called ad hoc increases, are made on a one-time-only basis, with no promise of future increases. Ad hoc increases have been granted in 15 of the past 22 years and have ranged from 1.0% to 2.9%. In 2006, an ad hoc increase of 2.3% was declared.

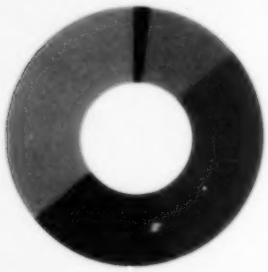
In the fall of 2006, the provincial government introduced legislation to set indexing of the Power Corporation Superannuation Plan, and other related provincial plans, to 70% of the increase in the Saskatchewan CPI. The financial impact on the Plan of this legislative change was approximately $41 million and was included in the 2006 actuarial valuation for accounting purposes.

**Plan members' rating of current level of communication**



| | |
|---|---|
| Just right | 76% |
| Not enough | 17% |
| No response | 4% |
| Too much | 3% |

**Plan members' preference for frequency of communication**



| | |
|---|---|
| Only if there is information to report | 36% |
| Semi-annually | 31% |
| Quarterly | 19% |
| Annually | 12% |
| No response | 2% |

Funding of the Plan: The Plan actuary performs a valuation for funding purposes at least once every three years. A funding valuation projects the amount of money required to fund future benefits and is a source of advice about the future level of contributions. This type of valuation differs from an accounting valuation, which is used for financial statement purposes. When a funding valuation is prepared, a number of assumptions and best estimates are made. Typically conservative in nature, these include expected rates of return on assets, rates for salary, inflation rates and mortality rates. Using these assumptions, the Plan had a small deficit of less than $3 million as at December 31, 2005. It is anticipated that the last benefits will be paid in 2070. SaskPower did not contribute to the Plan in 2006 and requested that a new funding valuation be prepared as at December 31, 2006. This new valuation will include in its assumptions the increased cost of indexing at 70% of the change in the CPI.

Online pension calculator: In the fall, SaskPower launched a web-based pension calculator for active employees. This tool is not designed to replace the official calculation prepared at the time of a member's actual retirement. Instead, the calculator is intended to assist employees in assessing various scenarios — such as different retirement ages — as they plan their retirement.

Communications survey: In May, a communication survey was mailed to all members. Its purpose was to assess the current methods of communication and give members an opportunity to provide feedback on possible improvements. The response rate to the survey was approximately 40%. SaskPower will evaluate the survey responses and make recommendations to ensure Plan members continue to receive useful and timely information.

## PLAN GOVERNANCE

Authority: The Power Corporation Superannuation Plan Board is responsible for the overall governance and administration of the Plan. Board members are appointed by the Lieutenant-Governor-in-Council pursuant to *The Power Corporation Superannuation Act*. The priority of the Board is to ensure that all members receive the secure benefits to which they are entitled. To deliver this pension promise, the Board serves as a vital check to verify that the Plan's assets are managed prudently. Board Members are required to ensure compliance with the provisions of *The Power Corporation Superannuation Act*, *The Superannuation (Supplementary Provisions) Act* and *The Superannuation Acts Uniform Regulations*.

Role of the Board: The Board selects the Plan's actuary, custodian and investment managers, and sets the investment policy. The Board is also responsible for stewardship; overseeing the identification and management of principal risks; reviewing performance of investment managers; and adoption of procedures that provide effective communication and maintain the integrity of internal controls. In addition, the Board is responsible for the sound investment and professional administration of the Plan on behalf of members, superannuates and sponsors. It reviews investment policies and performance, evaluates pension liabilities and ensures that financial statements are prepared in accordance with Canadian generally accepted accounting principles.

The Board bases its decisions on comprehensive research and input from expert advisors. It also monitors the Plan's overall administration to satisfy itself that members, superannuates and survivors receive the benefits to which they are entitled by governing legislation.

## Board composition

**Bill Jones**
Chair
Vice-president and Chief Financial Officer
Corporate and Financial Services
SaskPower

**Myron Gulka-Tiechko**
Vice-chair
Vice-president and General Counsel
SaskPower

**Robert Haynes**
SaskEnergy Representative
Vice-president
Human Resources
SaskEnergy

**Ken Pielak**
Employee Representative
Communications, Energy and Paperworkers (CEP)
SaskEnergy

**Grant Ring**
Treasurer
Corporate and Financial Services
SaskPower

**Brian Ross**
Employee Representative
International Brotherhood of Electrical Workers (IBEW)
SaskPower

**Jack Shepherd**
Superannuate Representative
Power Pioneers Association Inc.

*Served in an observer capacity in 2006*

Mel Watson
Board of Directors
SaskPower

Board Member training: Board Members bring forward the benefits associated with diverse experiences and a variety of professional attributes. However, it is also important they remain current with respect to the many issues surrounding prudent management of a pension plan. To this end, a training and development budget for the Board has been established. These fees are paid for by the Plan and can not exceed $42,000 during each fiscal year. The following is a summary of Board Member training costs in 2006.

| Board Member | Conference | Cost |
|---|---|---|
| **Jack Shepherd** | • Educational meeting sponsored by PEBA & PEPP (Waskesiu, Sask.)<br>• Canadian Investment Institute (Victoria, B.C.)<br>• Advanced Trustee Management Standards Part III (Victoria, B.C.) | $ 6,089 |
| **Myron Gulka-Tiechko** | • Association of Canadian Pension Management – Pension Governance Training (Winnipeg, Man.)<br>• Canadian Pensions & Investments Summit (Montreal, Que.) | 3,911 |
| **Robert Haynes** | • Canadian Investment Institute (Victoria, B.C.)<br>• Advanced Trustee Management Standards Part III (Victoria, B.C.)<br>• Canadian Pensions & Investments Summit (Montreal, Que.) | 6,213 |
| **Brian Ross** | • Canadian Investment Institute (Victoria, B.C.) | 3,120 |
| **TOTAL** | | **$ 19,333** |

These costs do not include any Board Member training paid for by SaskPower or any other institution. Board Members do not receive compensation for their services. However, they are reimbursed for travel-related expenses by their employer.

Board and management: Although the Board is responsible for overseeing the administration of the Plan, SaskPower is responsible for its day-to-day operations. The Corporation's management is expected to act within Board-approved policies and directives.

On a monthly basis, SaskPower staff are involved in monitoring the activities of the investment managers and reviewing the asset mix. They also serve as the primary contacts for member inquiries. SaskPower management reports to the Board on a regular basis, providing details of financial transactions, investments, retirement benefit activity and overall performance.

Independent experts: The Statement of Investment Policies and Goals provides guidelines for investment and monitoring assets. These principles were established to earn the best possible return on investments based on a level of risk acceptable to the Board. The Board reviews the policies annually and changes are made as necessary. The policy outlines a governance structure that allows the Board to retain the services of independent experts to assist it in fulfilling its responsibilities. The Board contracts independent actuarial, investment and accounting professionals, as well as a custodian.

The Board is required to meet at least annually with the investment advisor and each of the investment managers to discuss performance, strategies and expected future performance. As well, the Board reviews assumptions and valuation results with the actuary. It also meets with the Plan's external auditor before and after the annual audit of the financial statements. In 2006, the Board met quarterly to review financial results, performance and retirement benefit activity.

Investment managers: Investment managers at December 31, 2006 were:

| Asset class | Investment manager |
|---|---|
| Canadian equity | Jarislowsky Fraser Limited |
| Canadian equity and bond | Greystone Managed Investments Inc. |
| Global equity | Templeton Management Limited |
| International equity | Goldman Sachs and Hansberger Global Investors (affiliates of Greystone Managed Investments Inc.) |
| U.S. S&P 500 equity index | Barclays Global Investors |

Investment managers are chosen based on their expertise and investment style within a particular asset class. The Board has a formal agreement with each investment manager that contains a mandate formulated to optimize the risk/return profile for each asset class. The investment managers report results to the Board on a quarterly basis.

Investment advisor: Hewitt Associates (formerly James P. Marshall) serves as investment advisor to the fund with the role of providing an analytical review of the total fund, asset classes and investment managers' performance. This assessment is completed relative to peer and plan benchmarks, as well as each manager's style and risk characteristics. The investment advisor subsequently comments on the acceptability of performance, while advising the Board on overall investment policy and management that would best achieve objectives.

Custodian: RBC Dexia Investor Services serves as custodian. In this role, RBC holds custody of assets and is responsible for executing investment transactions while collecting income. The custodian also provides record-keeping services and monitors investments to ensure they are in compliance with both individual investment manager mandates and the overall statement of investment policies and goals.

Actuary: Aon Consulting Inc. prepares annual actuarial valuations for accounting purposes, and every three years or as requested, valuations for funding purposes. The actuary also provides the Board with information regarding administration, and makes recommendations related to policies on benefits and funding. The actuarial opinion and cost certificate is found on page 11.

Auditors: External auditors are contracted to perform annual audits of the Plan's fiscal year-end financial statements prepared by SaskPower management. The audit focuses on the existence, completeness and valuation of assets; the measurement of income and expenses; and the fairness of presentation in accordance with Canadian generally accepted accounting principles. In compliance with professional standards, the auditor communicates with the Plan's actuary and reviews the actuarial report for consistency with other information reviewed in the course of the audit.

Deloitte & Touche LLP conducted an independent examination of the Plan's year-end financial statements. The firm's professional opinion on the financial statements is found in its auditors' report attached to the financial statements. On an annual basis, the Provincial Auditor also reviews the financial statements, and overall governance, internal controls and legislative compliance.

Pension communications: A Pension Communication Committee comprising superannuate, union and management representation helps improve members' understanding of Plan provisions and disseminates significant legislative changes in a timely manner. During the past seven years, it has distributed the *Pension Update* newsletter to all members on a semi-annual basis.

The Power Corporation Superannuation Plan Annual Report is also provided to all members. Financial statements, investment performance, actuarial valuation assessment and membership profile are among the items highlighted.

## INVESTMENT HIGHLIGHTS

Investment strategy: The investment objective of the Plan is to meet current and future pension payment obligations. As a result, assets are invested in a diversified portfolio that will generate adequate and consistent returns. The funds are placed with a number of investment managers for investment in a wide range of securities and asset classes. Managers are assigned specific mandates and their performance is monitored against pre-determined benchmarks. By a combination of different types of investments in a portfolio, the negative effect of fluctuations in the markets is minimized and the risk of having a large loss is reduced.

Investment policies: The Plan has a Statement of Investment Policies and Goals approved by members of the Power Corporation Superannuation Plan Board. The policy communicates a philosophy of diversification and protection of capital while providing guidance to investment managers. To ensure diversification and risk control, the policy sets out guidelines for asset mix, individual equity/bond holdings, industrial sector holdings, debt ratings and bond duration.

The purpose of the policies is to outline appropriate investment principles and monitoring procedures. It conforms to applicable legislation and specific characteristics of the Plan. At present, the target asset mix is 65% equity and 35% fixed income. However, the actual mix at any one time may differ from this target due to fluctuations in the market.

The Statement of Investment Policies and Goals has the following objectives:

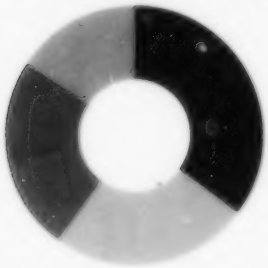
- to ensure the Plan has sufficient assets to meet future pension obligations;
- to optimize the risk/return relationship of the Plan; and
- to generate sufficient cash flow to meet ongoing pension payments.

Monitoring performance is a key activity in supporting the investment objectives. The policies outline a benchmark portfolio comprising market index assets weighted at the same asset allocation that is normal for the Plan. While broadly diversified, the benchmark portfolio emphasizes equity over fixed income investments on the basis of substantial evidence that, over time, equities provide superior returns.

**Asset allocation 2006**
(at market value)

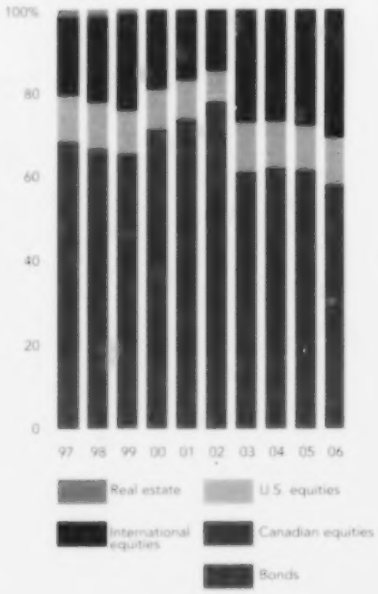
| | |
|---|---|
| Bonds | 33% |
| Canadian equities | 28% |
| Global equities | 17% |
| International equities | 13% |
| U.S. equities | 11% |

**Benchmark portfolio composition**

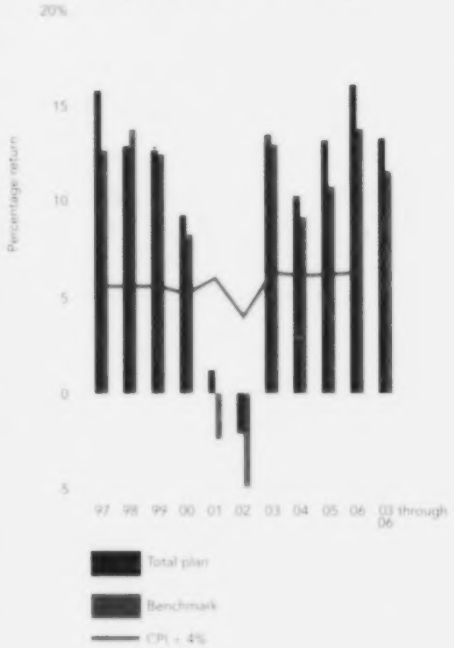


| | |
|---|---|
| Bonds | 35% |
| Scotia Capital Universe Bond Index | |
| Canadian equities | 28% |
| Global equities | 13% |
| International equities | 12% |
| Morgan Stanley Capital EAFE Index | |
| U.S. equities | 12% |
| Standard and Poor's 500 Composite Index | |

**Asset allocation 1997-2006**




**Plan performance 1997-2006**




The Plan's primary investment objective is to achieve a return higher than the asset mix benchmark. A secondary objective is to achieve a long-term rate of return of the average increase in the CPI for Canada plus 4% per annum. These two objectives should be viewed as an average annual compound rate to be sought over one or more complete capital market cycles or over a four to 10 year period.

During the year, the investment advisor conducted an asset/liability study for the Plan. The purpose of this type of study is to examine factors such as demographics, projected annual retirement allowances and remaining service life and compare the Plan's liabilities and expected cash flow requirements to specific investment holdings. Based on the results of this study, the Board will review the current asset mix and investment strategy and make adjustments where necessary.

Investment performance: The Plan's performance is measured by comparing its return to the benchmark portfolio. During 2006, the Plan achieved a rate of return of 16.1%, beating the benchmark return of 13.8%. All asset classes achieved rates of return higher than their benchmark.

A common standard within the pension fund industry is to calculate performance on a four-year cycle and, where possible, on a 10-year cycle. These longer-term measures have greater relevance and lower volatility than a one-year measurement. Over the period 2003-2006, the Plan averaged an annual return of 13.3%, compared to the benchmark average of 11.6%. Over the past 10 years, the Plan has averaged an annual return of 10.3% compared to the benchmark of 8.7%.

While returns fluctuate from year to year, the underlying volatility of individual asset class returns is even more pronounced. Because the investment policies set out a diversification strategy designed to mitigate the effects of volatility, the Plan's returns have historically been more stable than the returns of any single asset class. Additionally, Plan returns have been achieved at risk levels that are lower than the average pension fund portfolio.

## FINANCIAL HIGHLIGHTS

This year marked another strong period in terms of the Plan's overall financial performance. While all equity classes achieved solid double digit returns, international and global equities excelled by providing an average rate of return of 28.6%. Strong corporate earnings, low inflation levels, low unemployment rates and modest interest rates all contributed to the strong performance of the equity markets.

Overall, the Plan ended the year with net assets available for benefits of $852 million, an increase of $78 million over the previous year. Over the past four years, the Plan has seen net assets available for benefits increase by $211 million despite paying out approximately $161 million in benefits. The changes in net assets from 2005 to 2006 are as follows:

| Change in net assets (in millions) | 2006 | 2005 |
|---|---|---|
| Income: | | |
| Investment income | $ 28 | $ 23 |
| Increase in market value of investments | 93 | 67 |
| Contributions | 2 | 7 |
| | 123 | 97 |
| Expenditures: | | |
| Superannuation allowances | 42 | 41 |
| Refunds and transfers | 1 | - |
| Administration expenses | 2 | 2 |
| | 45 | 43 |
| **Change in net assets** | $ 78 | $ 54 |

In 2006, the Plan paid approximately $42 million in benefits and $2 million in administrative expenses. The administrative expenses represent fees paid to the investment managers and custodian for managing and recording investments. These fees are based on the market value of assets under management. The cost of these services is 0.24% of the market value of the total assets in 2006, the same as the 2005 rate.

A recent survey prepared by CEM Benchmarking Inc. and received in September 2006, examined the fees paid by pension funds for internal and external investment management services. Based on the results of the survey, the Power Corporation Superannuation Plan fell into the quadrant of "High Value Added & Low Cost." To put this in other terms, the average administrative costs for plans with similar asset values were approximately $0.5 million higher than the administrative expenses paid by this Plan. Being classified as high-cost or low-cost is not necessarily good or bad. The more important question is whether or not a plan is receiving sufficient value for the fees it pays.

## ACTUARIAL VALUATION

The obligation of any defined benefit pension plan is to fulfill its pension promise — a commitment to provide lifetime periodic payments to eligible retired members. Meeting this pledge requires a sound financial base. To assess the financial status of the Plan, an actuarial valuation for accounting purposes is performed annually as at December 31. In 2006, the Plan recognized an actuarial surplus of $13 million for financial statement reporting purposes, compared to a $3 million surplus at the previous year end. The accrued pension benefits increased by $69 million due largely to the increased cost of indexing to 70% of the change in the CPI for Saskatchewan. Net assets available for benefits increased by $78 million, primarily due to an increase in the market value of the investments. It should be noted that as outlined in the Act, the pensions of all members are guaranteed by SaskPower regardless of the financial performance of assets and funded status of the Plan. Any deficiencies to superannuation allowances will be met by payments from the revenues of SaskPower.

| Actuarial surplus (in millions) | 2006 | 2005 |
|---|---|---|
| Net assets available for benefits | $ 852 | $ 773 |
| Accrued pension benefits | 839 | 770 |
| Surplus | $ 13 | $ 3 |

Actuarial methodology and assumptions: In completing an actuarial valuation, certain future events must be considered. A number of assumptions are made and future events are deemed to occur according to these assumptions. This methodology is called a *best estimate actuarial valuation* and it attempts to arrive at the most likely outcome. The economic assumptions are based on published five-year forecasts, investment policy and specific characteristics of the Plan membership, with extrapolation to the end of the benefit period. To value the liabilities, the actuary examines the Plan's demographics — the age, length of service and salary ranges of the membership. Information is processed on active members, deferred members and pensioners, and surviving spouses who receive benefits. In addition, mortality, disability and termination of employment data are reviewed and factored into the valuation assumptions.

| Best estimate valuation economic assumptions | 2006 | 2005 |
|---|---|---|
| Discount rate | 5.25% | 5.25% |
| Expected rate of return on Plan assets | 6.50% | 6.50% |
| Long-term inflation rate | 2.50% | 2.50% |
| Long-term rate of compensation increases | 3.50% | 3.50% |
| Assumption for benefit increases (% of CPI) | 70.00% | 50.00% |

The following illustrates the sensitivity of some of the major assumptions used in preparing the actuarial valuation:

**Retirement age:** By assuming a retirement age equal to the earliest age that a member can retire with a reduced pension, the surplus would increase by $5 million. Although the member would be receiving a pension at an earlier age and not contributing as much into the Plan, the final average salary used in calculating retirement benefits is also lower and results in an increase to the surplus.

**Discount rate:** An increase in the discount rate of 0.5% (from 5.25% to 5.75%) would result in an increase to the surplus of $45 million, as the present value of the necessary bond portfolio to cover the past service liabilities will be reduced.

**Salary:** A decrease to the real salary increase assumption of 0.5% (from 3.50% to 3.0%) would result in an increase to the surplus of $1 million. The final average salary at retirement and the level of benefits paid at retirement also decrease.

**Inflation:** An inflation rate assumption that is 0.5% lower than the assumed rate (2.00% vs. 2.50%) would result in a decrease to the surplus of $16 million. A lower inflation rate reduces both the discount rate and future benefit increases. The impact of the lower discount rate, which increases the accrued pension benefits, more than offsets the reductions that result from lower future benefit increases.

**CPP at 67:** By increasing the retirement age under the CPP to age 67 from age 65, the offset at age 65 under the Plan is effectively delayed for two years to age 67. This results in two years worth of increased pension payments, payable from the Plan, thus increasing the past and future service liabilities under the Plan, and decreasing the surplus by $6 million.

## Actuarial opinion and cost certificate

Aon Consulting Inc. was retained by the Power Corporation Superannuation Board (the Board) to perform an actuarial valuation of the assets and the liabilities of the Power Corporation Superannuation Plan (the Plan) as at September 30, 2006, for accounting information purposes based on Section 4100 of the Canadian Institute of Chartered Accountants (CICA) Handbook. The results of this valuation were subsequently extrapolated to December 31, 2006. As part of the valuation and subsequent extrapolation, we examined the Plan's recent experience with respect to the non-economic assumptions and presented our findings to management. In addition, we provided management with a statistical survey and other information used to develop its long-term economic assumptions.

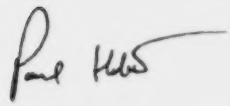
The valuation and subsequent extrapolation of the Plan's actuarial liabilities were based on:

- membership data provided by the Saskatchewan Power Corporation as at September 30, 2006;
- methods prescribed by CICA for pension plan financial statements; and
- assumptions about future events (for example, future rates of inflation) which represent management's best estimate of these events.

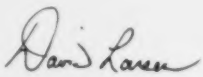
The objective of the financial statements is to fairly represent the financial position of the Plan on December 31, 2006, as a going concern. The actuarial assumptions used to estimate liabilities of the Plan's financial statements represent management's best estimate of future events. While we do not render a specific opinion on these assumptions, they are not unreasonable when considering the circumstances of the Plan and the purpose of the valuation and subsequent extrapolations. The Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. It is important to note that the valuation and subsequent extrapolation have not been performed for the purposes of assessing the adequacy of the Plan's current funding recommendation nor is it intended to update or replace the Plan's current funding recommendation.

We have tested the data for reasonableness and consistency, and we believe it to be sufficient and reliable for the purposes of the valuation and we also believe that the methods employed in the valuation extrapolation are appropriate for the purposes of the subsequent valuation. Our opinions have been given, and our valuation extrapolations have been performed, in accordance with accepted actuarial practice.

The results of our accounting actuarial valuation and subsequent extrapolation disclosed total actuarial liabilities of $838,763,000 in respect of benefits accrued for service prior to December 31, 2006. The market value of assets at that date was $851,587,000 indicating an accounting actuarial surplus of $12,824,000. The total cost of benefits to be accrued in the 12 months following December 31, 2006, is $8,770,000 as at December 31, 2006.



Paul Hebert
Fellow, Society of Actuaries
Fellow, Canadian Institute of Actuaries
February 2, 2007



David R. Larsen
Fellow, Society of Actuaries
Fellow, Canadian Institute of Actuaries

## Report of management

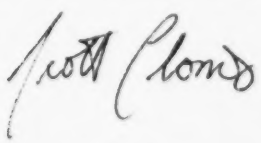
The financial statements of the **Power Corporation Superannuation Plan** are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with that of the preceding year. The preparation of financial statements necessarily involves the use of estimates based on management's best judgement, particularly when transactions affecting the current period cannot be finalized with certainty until future periods. In management's opinion, the financial statements have been properly prepared within the framework of selected accounting policies summarized in the financial statements.

Management maintains appropriate systems of internal control which provide assurance that the Plan's assets are safeguarded and appropriately accounted for, that financial records are relevant, reliable and accurate and that transactions are executed in accordance with management's authorization. These systems include policies and procedures, as well as the appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these controls and reports its findings to the SaskPower Board of Directors.

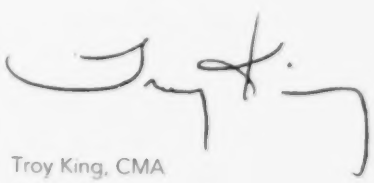
The Power Corporation Superannuation Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. At regular meetings the Board reviews audit, internal control and financial matters with management and the external auditors to satisfy itself that each is properly discharging its responsibilities. The annual report, financial statements and the external auditors' report have been reviewed and approved by the Board. The external auditors have full and open access to the Board, with and without the presence of management.

The financial statements have been examined by Deloitte & Touche LLP, Chartered Accountants, as appointed by the Lieutenant-Governor-in-Council and approved by the Crown Investments Corporation of Saskatchewan. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The auditors' report, which follows, outlines the scope of their examination and sets forth their opinion.

On behalf of management,



Scott Chomos, CMA
Supervisor, Treasury Accounting
SaskPower
February 14, 2007



Troy King, CMA
Controller
SaskPower

## Auditors' report

To the Members of the Legislative Assembly of Saskatchewan

We have audited the statement of net assets available for benefits and accrued pension benefits and surplus of the **Power Corporation Superannuation Plan** as at December 31, 2006, and the statements of changes in net assets available for benefits and changes in accrued pension benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and surplus of the Plan as at December 31, 2006, and the changes in the net assets available for benefits and the changes in accrued pension benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Regina, Saskatchewan
February 14, 2007

# Statement of net assets available for benefits and accrued pension benefits and surplus

| (in thousands) As at December 31 | 2006 | 2005 |
|---|---|---|
| **Assets** | | |
| **Investments, at market** (*Note 3*) | | |
| Short-term securities | **$ 5,045** | $ 5,892 |
| Bonds | **272,835** | 262,743 |
| Equities | **570,608** | 502,664 |
| | **848,488** | 771,299 |
| **Receivables** | | |
| Employees' contributions | **44** | 43 |
| Sponsors' contributions | **49** | 49 |
| Accrued investment income | **2,533** | 2,180 |
| Other receivables | **5,284** | 19 |
| | **7,910** | 2,291 |
| **Cash** | **770** | 499 |
| **Total assets** | **857,168** | 774,089 |
| **Liabilities** | | |
| Accounts payable | **5,581** | 997 |
| **Net assets available for benefits** | **$ 851,587** | $ 773,092 |
| **Accrued pension benefits and surplus** | | |
| Accrued pension benefits | **$ 838,763** | $ 769,913 |
| Surplus | **12,824** | 3,179 |
| **Accrued pension benefits and surplus** | **$ 851,587** | $ 773,092 |

*See accompanying notes*

On behalf of the Board:

W. Davern Jones
Chair

Grant Ring, CMA
Director

# Statement of changes in net assets available for benefits

(in thousands)

| For the year ended December 31 | 2006 | 2005 |
|---|---|---|
| **Increase in net assets** | | |
| **Investment income** | | |
| Interest | | |
| Short-term securities | $ 254 | $ 1,688 |
| Bonds *(Note 5)* | 12,095 | 11,462 |
| | 12,349 | 13,150 |
| Dividends | 15,308 | 10,019 |
| | 27,657 | 23,169 |
| **Increase in market values of investments** | 92,903 | 66,733 |
| **Contributions** *(Note 1)* | | |
| Employees' | 1,711 | 1,652 |
| Sponsors' | 453 | 5,198 |
| | 2,164 | 6,850 |
| **Total increase in net assets** | 122,724 | 96,752 |
| **Decrease in net assets** | | |
| Superannuation allowances | 41,708 | 40,486 |
| Transfers and refunds on terminations | 552 | 167 |
| Administrative expenses *(Note 6)* | 1,969 | 1,860 |
| **Total decrease in net assets** | 44,229 | 42,513 |
| **Changes in net assets** | 78,495 | 54,239 |
| **Net assets available for benefits, beginning of year** | 773,092 | 718,853 |
| **Net assets available for benefits, end of year** | $ 851,587 | $ 773,092 |

*See accompanying notes*

## Statement of changes in accrued pension benefits

(in thousands)

| For the year ended December 31 | 2006 | 2005 |
|---|---|---|
| **Increase in accrued pension benefits** | | |
| Interest on accrued benefits | **$ 40,366** | $ 42,375 |
| Change in plan provisions (*Note 4*) | **40,748** | - |
| Changes in actuarial assumptions | **7,551** | 46,463 |
| Benefits accrued | **8,010** | 7,582 |
| Experience losses | **14,435** | - |
| | **111,110** | 96,420 |
| **Decrease in accrued pension benefits** | | |
| Benefits paid | **42,260** | 40,653 |
| Experience gains and other | **-** | 4,845 |
| | **42,260** | 45,498 |
| **Accrued pension benefits, beginning of year** | **769,913** | 718,991 |
| **Accrued pension benefits, end of year** | **$ 838,763** | $ 769,913 |

*See accompanying notes*

## 1. Description of the Plan

The following description of The Power Corporation Superannuation Plan (the Plan) is a summary only. For more complete information, reference should be made to *The Power Corporation Superannuation Act*, *The Superannuation (Supplementary Provisions) Act* and *The Superannuation Acts Uniform Regulations*.

### a) General

The Plan is a defined benefit pension plan maintained by Saskatchewan Power Corporation (the Corporation) for those employees who were hired prior to October 1, 1977, and who did not elect to transfer to the Public Employees Pension Plan, a defined contribution plan, before October 1, 1978. The Plan is administered by a seven-person Board appointed by the Lieutenant-Governor-in-Council.

### b) Members' contributions

Plan members contribute a percentage of their salary at a rate based on the age when they last became a contributor to the Plan and any agreements for an employee group, less a reduction for Canada Pension Plan integration.

An employee makes no further contributions after 35 years of pensionable service.

### c) Sponsors' contributions

In accordance with *The Power Corporation Superannuation Act*, the Corporation contributes such amounts as are necessary to fund the payments provided by the Plan. Some Plan members are employees of other corporations that have been designated by the Lieutenant-Governor-in-Council as institutions. For these corporations, an actuary determines the required employer contribution for their active Plan members.

### d) Retirement allowances

The Plan provides an unreduced retirement allowance at age 65 with at least five years pensionable service, at age 60 with at least 20 years pensionable service, or upon completion of 35 years pensionable service.

Retirement allowances are based on 2% of the best five-year average annual salary multiplied by the years of pensionable service, up to a maximum of 35 years, subject to Canada Revenue Agency maximums. At age 65, the retirement allowance is reduced due to integration with the Canada Pension Plan for pensionable service from January 1, 1966.

Employees may retire with an early-reduced retirement allowance at age 55 with at least 30 years pensionable service, or at age 60 with at least 15 years pensionable service. Both age and service criteria must be met to be eligible for an early-reduced retirement.

The Lieutenant-Governor-in-Council may increase retirement allowances up to the increase in the consumer price index (CPI) for Saskatchewan in the preceding year. Increases are subject to the maximum increase permitted under *The Income Tax Act* (Canada). In 2006, the Saskatchewan Provincial Government introduced legislation that would amend the Plan to provide annual benefit increases at a rate equal to 70% of the increase in the CPI.

**e) Survivors' allowances**

Death benefits are available to a qualifying surviving spouse in the form of a survivor allowance. A qualifying surviving spouse is the spouse at the time of retirement. The retirement allowance paid to the spouse will be based upon the member's selection at retirement or at the time of conversion. Effective June 27, 2003, retired members who have had a change in marital status after retirement may apply to convert their retirement allowance to recognize their new spouse, provided certain criteria are met.

Members may select the basic retirement allowance that will pass 60% of the retirement allowance that they would have received to their spouse. Effective June 25, 1996, for death prior to age 65, the surviving spouse will receive 60% of the deceased member's lifetime retirement allowance, plus 60% of the bridge benefit (the amount due to Canada Pension Plan integration payable until the member would have turned age 65).

Alternatively, members may select the 75% (effective April 1, 2002) or the 100% option. The spouse will receive 75% or 100% of the lifetime retirement allowance, plus 75% or 100% of the bridge benefit, the amount due to Canada Pension Plan integration, until the member would have turned age 65.

On and after June 28, 2001, and in the event of pre-retirement death, the spouse will receive a retirement allowance based upon the member's credited service as of the date of death. The survivor's allowance would be based on the greater of the basic retirement allowance of 60% plus any children's payments, or 100% actuarial equivalent. The spouse would receive the applicable percentage of the members' lifetime pension plus the bridge benefit.

Additional survivor benefits for dependent children may apply.

If no one is eligible to receive a survivor's allowance from the Plan, then the total of the member's contributions, plus legislated interest, less any retirement allowances paid up to the member's time of death, will be paid to the member's estate.

**f) Deferred allowances**

An employee who is at least 30 years of age and has at least 10 years continuous pensionable service may elect to receive a deferred allowance upon ceasing employment.

Subject to re-employment limitations pursuant to *The Superannuation (Supplementary Provisions) Act*, the earliest that a deferred member with at least 10 years pensionable service and up to 20 years pensionable service may commence an unreduced retirement allowance, is at age 65. The earliest that a deferred member with greater than 20 years pensionable service may commence an unreduced retirement allowance, is at age 60.

**g) Refunds and transfers**

Upon ceasing employment and prior to becoming eligible to receive an unreduced retirement allowance, Plan members may elect to receive a refund of their contributions plus legislated interest as a lump-sum payment less statutory deductions; as a transfer to their registered retirement savings plan; or as a transfer pursuant to the terms of an existing reciprocal agreement with another registered pension plan. Once a refund or transfer has been processed, the member has no further claim against the Plan.

**h) Other benefits**

Under certain circumstances, members may purchase additional credited service in the Plan.

**i) Income taxes**

The Plan is a registered pension plan as defined in *The Income Tax Act* (Canada) and is not subject to income taxes. Retirement allowances paid from the Plan are subject to source deductions that are withheld by SaskPower and remitted to the Canada Revenue Agency.

## 2. Summary of significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following policies are considered to be significant:

### a) Investments

Investments are recorded as of the trade date and are stated at fair value. Fair value is the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing partners who are under no compulsion to act. For purposes of establishing a value of the Plan's assets, equities are valued using closing market prices. Bonds are valued using mid-market prices and pooled funds are valued based on the closing market price of the underlying investments.

### b) Investment income

Investment income consists of interest on bonds and short-term securities (which is recognized as it accrues) and dividend income (which is recognized as of the ex-dividend date).

### c) Foreign exchange

Foreign investment purchases, sales and income are recorded in Canadian dollars at exchange rates in effect at the transaction date. Foreign-denominated investments and accrued investment income are translated at year-end exchange rates. The unrealized gains and losses arising from this translation are included in the statement of changes in net assets available for benefits as part of the increase in market value of investments.

### d) Use of estimates

In preparing the Plan financial statements, management uses estimates and assumptions that primarily affect the reported values of assets and liabilities, and related income and expenses. Significant estimates are used primarily in the determination of accrued pension benefits and the fair value of investments and investment-related receivables and liabilities. Actual results could differ from those estimates, which may impact the results reported in future periods.

## 3. Investments

### a) Schedule of investments

The investment objectives of the Plan are to ensure the Plan has sufficient assets to optimize the risk/return relationship of the Plan and to generate sufficient cash flow to meet pension payments. Due to the long-term horizon of the Plan's liabilities, the Plan takes a long-term investment perspective. The strategy employed to achieve these objectives is to invest the Plan's assets into a diversified pool of investments such as Canadian and foreign equities, money market securities and bonds. The Plan's target asset mix is 65% equity and 35% fixed income. The schedule below summarizes the Plan's investments as at December 31:

| (in thousands) | 2006 | 2005 |
|---|---|---|
| **Short-term securities** | | |
| Canada | **$ 5,045** | $ 5,892 |
| | **5,045** | 5,892 |
| **Bonds** | | |
| Government of Canada and federally-guaranteed | **142,894** | 141,636 |
| Provincial and provincially-guaranteed *(Note 5)* | **73,852** | 72,709 |
| Corporate | **56,089** | 48,398 |
| | **272,835** | 262,743 |
| **Equities** | | |
| Canada | **216,340** | 207,249 |
| Foreign | **259,503** | 213,208 |
| U.S. | **94,765** | 82,207 |
| | **570,608** | 502,664 |
| | **$ 848,488** | $ 771,299 |

**Short-term securities (in thousands)**

The Plan invests in short-term securities that have an R1 (high quality) or equivalent rating. At December 31, 2006, the Plan held Canadian dollar denominated investments of $5,045 (2005 - $5,892) maturing within 12 to 85 days (2005 - 5 to 90 days) at yields of 4.3% to 5.1% (2005 – 3.4% to 4.0%).

Due to the elimination of foreign content restrictions in 2005, the utilization of S&P 500 index futures was no longer necessary. Barclays Global Investors (BGI) invests in a pooled fund designed to replicate the performance of the S&P 500.

**Bonds (in thousands)**

The Plan invests in bonds, considered to be high quality, as follows:

| (in thousands) | | 2006 | | 2005 | |
|---|---|---|---|---|---|
| | Years to maturity | Market value | Average yield (%) | Market value | Average yield (%) |
| **Federal bonds** | 1-5 | **$ 97,933** | **4.16** | $ 108,657 | 3.52 |
| | 6-10 | **15,723** | **4.42** | 9,431 | 4.25 |
| | 16-20 | **8,611** | **4.60** | – | – |
| | 20+ | **20,627** | **5.38** | 23,548 | 5.38 |
| | | **142,894** | | 141,636 | |
| **Provincial bonds** | 1-5 | **7,366** | **6.34** | 12,784 | 5.45 |
| | 6-10 | **21,278** | **5.22** | 15,719 | 5.23 |
| | 11-15 | **9,211** | **6.15** | 8,234 | 5.28 |
| | 16-20 | **5,188** | **6.23** | 5,127 | 6.23 |
| | 20+ | **30,809** | **5.75** | 30,845 | 5.89 |
| | | **73,852** | | 72,709 | |
| **Corporate bonds** | 1-5 | **25,218** | **4.86** | 27,651 | 5.15 |
| | 6-10 | **13,145** | **4.71** | 7,031 | 5.15 |
| | 11-15 | **7,019** | **5.16** | 5,199 | 5.17 |
| | 16-20 | **2,965** | **7.74** | 3,075 | 7.74 |
| | 20+ | **7,742** | **5.63** | 5,442 | 5.98 |
| | | **56,089** | | 48,398 | |
| **Total bonds** | | **$ 272,835** | | $ 262,743 | |

Federal and federally guaranteed bonds have a credit rating of AAA. Provincial and provincially guaranteed bonds have a credit rating range of BBB to AA. Corporate bonds have a credit rating range of BBB to AAA. The Plan has established quality standards for corporate fixed income issues as follows:

| Debt rating | Maximum % of fixed income portfolio |
|---|---|
| BBB | 20% |
| A | 40% |
| AA or higher | No limit |

At December 31, 2006, the Plan's bond portfolio comprised of $3,551 (1%) in BBB, $47,719 (18%) in A, and $221,565 (81%) in AA or higher. In 2005, the Plan held $2,573 (1%) in BBB, $56,293 (21%) in A, and $203,877 (78%) in AA or higher.

### Equities (in thousands)

The Plan's equity investments are held as portfolio investments and are generally readily marketable. In 2005, the federal government lifted the restrictions around foreign content limits, allowing pension plans to invest up to 100% of their registered assets anywhere in the world. During the year, 42% of the Plan's total equity was invested in mandates outside of Canada.

Investments are generally limited to stocks that are publicly traded on a recognized securities market. The Plan's equities include common shares that have no fixed maturity date and are generally not directly exposed to interest rate risks. Dividends are generally declared on a quarterly basis.

The following is a breakdown of specific equities held in the Plan as at December 31, 2006, with a market value exceeding $5 million:

| Corporate shares (in thousands) | Shares/units | Market value |
|---|---|---|
| Royal Bank of Canada | 260 | $ 14,427 |
| Manulife Financial Corporation | 352 | 13,867 |
| Bank of Nova Scotia | 264 | 13,739 |
| Nexen Inc. | 140 | 9,001 |
| TransCanada Corporation | 162 | 6,594 |
| Jarislowsky Fraser Special Equity Pooled Fund (1) | 264 | 6,403 |
| Rogers Communications Inc. | 91 | 6,151 |
| Toronto Dominion Bank | 86 | 6,010 |
| Canadian National Railway | 117 | 5,837 |
| SNC-Lavalin Group Inc. | 171 | 5,381 |
| Cameco Corp. | 110 | 5,154 |

(1) The Jarislowsky Fraser Special Equity Pooled Fund is a fund managed by Jarislowsky Fraser Ltd. and used to purchase less liquid, smaller or special Canadian equity positions.

### Pooled funds (in thousands)

In 2006, the Plan held $214,133 (2005 - $179,940) in pooled funds. A pooled fund is a group of individual securities managed by an investment manager and is considered an equity investment in terms of the Plan's overall asset mix. The unit price of the pooled fund is determined by the overall performance of each of the stocks in the fund. The following is a breakdown by investment manager of pooled fund assets in Canadian dollars held in the portfolio:

| (in thousands) | 2006 | | 2005 | |
|---|---|---|---|---|
| | Investments | % of plan investments | Investments | % of plan investments |
| Barclays Global Investors | $ 94,765 | 11.2 | $ 82,207 | 10.7 |
| Greystone Managed Investments Inc. (1) | 112,965 | 13.3 | 91,921 | 11.9 |
| Jarislowsky Fraser | 6,403 | 1.0 | 5,812 | 0.8 |
| Total pooled fund assets | $ 214,133 | 25.5 | $ 179,940 | 23.4 |

(1) Greystone Managed Investments Inc. has delegated the management of these funds to Goldman Sachs and Harisberger Global Investors.

**b) Interest rate risk**

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Plan's assets and liabilities. Interest rate risk is managed by investing in a portfolio of fixed term securities with varying durations. The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets. The value of liabilities, as measured in current dollars, is subject to fluctuations of long-term interest rates.

**c) Market risk**

The Plan invests in publicly traded equities and bonds available on domestic and foreign exchanges. These securities are affected by market changes and fluctuations. The Plan manages market risk by investing in different domestic and foreign markets and through the establishment and review of asset mix ranges and limits for various investments.

**d) Credit risk**

Credit risk arises from the potential for an investee or for a counterparty to default on its contractual obligation to the Plan. The Plan limits the credit risk by dealing with counterparties that are considered to be high quality. The credit ratings used to describe these securities are based on the Dominion Bond Rating Service.

**e) Foreign currency risk**

Foreign currency exposure arises from the Plan holding investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against these foreign currencies result in a positive or negative effect on the fair value of investments. In 2006, the Plan had investments denominated in foreign currencies. The exposure in Canadian dollars is as follows:

| (in thousands) | 2006 | | 2005 | |
|---|---|---|---|---|
| | **Investments (CDN dollars)** | **% of plan investments** | Investments (CDN dollars) | % of plan investments |
| Global equities (1) | **$ 146,538** | **17.3** | $ 121,287 | 15.7 |
| Non-North American pooled fund (2) | **112,965** | **13.3** | 91,921 | 11.9 |
| U.S. equities (3) | **94,765** | **11.2** | 82,207 | 10.7 |
| **Total foreign currency exposure** | **$ 354,268** | **41.8** | $ 295,415 | 38.3 |

(1) Templeton Management Limited was retained to invest Plan assets in international equities on a segregated basis.

(2) These assets are pooled equity funds and are part of the Greystone Managed Investments Inc. mandate. The management of these funds has been delegated to Goldman Sachs and Hansberger Global Investors.

(3) These assets are pooled U.S. equity funds which Barclays Global Investors manages.

The foreign currency exposure in the Plan, in Canadian dollars, can be further broken down as follows:

| (in thousands) Currency | 2006 Exposure | 2005 Exposure |
|---|---|---|
| United States dollar | $ 138,654 | $ 113,098 |
| Euro | 72,744 | 54,107 |
| British pound sterling | 51,748 | 44,755 |
| Japanese yen | 26,103 | 32,453 |
| Hong Kong dollar | 14,288 | 9,463 |
| Swiss franc | 14,137 | 7,192 |
| Korean won | 6,906 | 8,506 |
| Norwegian krone | 6,182 | 3,725 |
| Australian dollar | 5,476 | 3,778 |
| Other | 18,030 | 18,338 |
| **Total foreign currency exposure** | $ 354,268 | $ 295,415 |

## 4. Obligations for pension benefits

The present value of accrued pension benefits is determined using the projected benefit method prorated on service and reflects management's best estimates of future investment performance, wage and salary escalation, age at retirement and future pension indexing. On an annual basis, an actuarial valuation for accounting purposes is prepared as at September 30 by Aon Consulting Inc. and then extrapolated to December 31.

The actuarial present value of accrued pension benefits is deducted from the net assets available for benefit to calculate the actuarial surplus for accounting purposes.

The assumptions used in determining the actuarial value of accrued pension benefits may change from year to year depending on current and long-term market conditions. The following is a summary of the actuarial assumptions:

| | 2006 | 2005 |
|---|---|---|
| Discount rate | 5.25% | 5.25% |
| Expected rate of return on plan assets | 6.50% | 6.50% |
| Long-term inflation rate | 2.50% | 2.50% |
| Long-term rate of compensation increases | 3.50% | 3.50% |
| Assumption for benefit increases (% of CPI) (1) | 70.00% | 50.00% |
| Remaining service life (years) | 3.89 | 4.45 |

(1) In 2006, the Government of Saskatchewan introduced legislation that would amend the Plan to provide annual benefit increases at a rate equal to 70% of the increase in the Saskatchewan CPI.

## 5. Related party transactions (in thousands)

### a) Administration

As indicated in *Note 6*, certain administration costs are paid by the Corporation.

### b) Investments

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | **Investments** | **Investment income** | Investments | Investment income |
| Province of Saskatchewan bonds | **$ 4,373** | **$ 216** | $ 4,415 | $ 190 |

## 6. Administration costs

*The Superannuation (Supplementary Provisions) Act* permits the Board to engage technical and professional advisers, specialists and consultants for the purposes of managing, investing and disposing of Plan assets, with the related costs to be paid by the Plan.

### a) Administration (in thousands)

The costs to administer the Plan are borne by the Corporation and are therefore not reflected in the Plan financial statements. The costs typically paid for by the Corporation include audit and actuarial fees as well as general administration costs. However, investment management, custodial and consulting fees are paid by the Plan. In 2006, the Corporation paid $219 (2005 - $93) for costs relating to the Plan. These figures do not include salaries paid to employees of SaskPower who serve as staff advisors or administrators of the Plan.

### b) Investment management services

Greystone Managed Investments Inc., Jarislowsky Fraser Ltd., Templeton Management Limited, and Barclays Global Investors were contracted to invest the monies of the Plan during the year.

The Board has developed, with the assistance of its consultant, Hewitt Associates, specific investment policies and guidelines to which the investment managers must adhere when making investment decisions.

### c) Custodian services

The custodian for the Plan assets is responsible for the safekeeping of all assets and property of the Plan; processing and handling investment transactions; reviewing and documenting investment compliance by managers; and providing SaskPower with detailed reports identifying the specific assets held in the Plan. Custodian services were provided by RBC Dexia Global Services.

### d) Board Member training

The Board has established a training budget, allowing up to $42,000 (on average, $6,000 per Board Member) to be used for training on investment performance, risk management, asset allocation and governance. This training helps Board Members remain up to date on various issues that relate to prudent Plan management.

In 2006, Board Member training costs totalled $19,333 (2005 – $23,648).

## 7. Investment performance (in thousands)

The investment manager makes the day-to-day decisions on buying or selling specific investments in order to achieve the long-term performance objectives set by the Board. The Board reviews the investment performance of the Plan in terms of the performance of the benchmark portfolio over a rolling four-year period. The Plan's benchmark has been determined using the actual returns of market indexes such as the Scotia Capital Universe Bond index; TSX Composite index; Morgan Stanley Capital International, Europe, Australia, Far East index; Morgan Stanley World index; and the S&P 500 index. The primary long-term investment objective for the entire portfolio is to out-perform a benchmark portfolio. If achieved, the return on this balanced portfolio would provide the necessary return to fund the pensions promised with an acceptable level of risk.

The following is a summary of the Plan's investment performance as provided by Hewitt Associates:

| Rates of return (%) | **2006** | | 2005 | |
|---|---|---|---|---|
| | **Investment return** | **Investment benchmark return** | Investment return | Investment benchmark return |
| Fixed income | **4.7** | **4.1** | 7.0 | 6.5 |
| Canadian equity | **18.7** | **17.3** | 28.5 | 24.1 |
| United States equity | **15.4** | **15.4** | 2.1 | 2.3 |
| Non-North American equity | **27.2** | **25.9** | 12.9 | 10.7 |
| Global equity | **29.7** | **19.8** | 9.5 | 6.2 |
| Plan's actual rate of return | **16.1** | **13.8** | 13.2 | 10.8 |
| Four year rolling average return | **13.3** | **11.6** | 8.5 | 6.6 |

In 2006, the Plan achieved an increase to the market value of its investments of $92,903. Unrealized market value gains of $61,058 and realized market value gains of $34,750 were partially offset by a foreign exchange loss of $2,905. This foreign exchange loss is due to the rise of the Canadian dollar, from U.S. $0.8577 as at December 31, 2005, to U.S. $0.8581 as at December 31, 2006.

In 2005, the Plan achieved an increase to the market value of its investments of $66,733. Unrealized market value gains of $45,673 and realized market value gains of $21,666, which includes a foreign exchange loss of $3,505, were partially offset by an unrealized foreign exchange loss of $606.

## Five-year review
## Net assets available for benefits and accrued pension benefits and surplus/(deficit)

(in thousands)

| As at December 31 | **2006** | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Investments, at market** | | | | | |
| Short-term securities | **$ 5,045** | $ 5,892 | $ 86,917 | $ 108,690 | $ 54,652 |
| Bonds | **272,835** | 262,743 | 249,242 | 230,403 | 321,543 |
| Equities | **570,608** | 502,664 | 380,052 | 344,467 | 259,286 |
| | **848,488** | 771,299 | 716,211 | 683,560 | 635,481 |
| **Receivables** | | | | | |
| Employees' contributions | **44** | 43 | 38 | 40 | 41 |
| Sponsors' contributions | **49** | 49 | 43 | 48 | 49 |
| Accrued investment income | **2,533** | 2,180 | 2,422 | 2,200 | 3,627 |
| Other receivables | **5,284** | 19 | 425 | 29 | 9,298 |
| | **7,910** | 2,291 | 2,928 | 2,317 | 13,015 |
| **Cash** | **770** | 499 | 838 | 6,687 | 1,161 |
| **Total assets** | **857,168** | 774,089 | 719,977 | 692,564 | 649,657 |
| **Liabilities** | | | | | |
| Accounts payable | **5,581** | 997 | 1,124 | 9,002 | 8,860 |
| **Net assets available for benefits** | **$ 851,587** | $ 773,092 | $718,853 | $ 683,562 | $ 640,797 |
| **Accrued pension benefits and surplus** | | | | | |
| Accrued pension benefits | **$ 838,763** | $ 769,913 | $718,991 | $ 704,437 | $ 674,463 |
| Surplus/(deficit) | **12,824** | 3,179 | (138) | (20,875) | (33,666) |
| **Accrued pension benefits and surplus/(deficit)** | **$ 851,587** | $ 773,092 | $718,853 | $ 683,562 | $ 640,797 |

## Five-year review
## Changes in net assets available for benefits

(in thousands)

| As at December 31 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| **Increase in net assets** | | | | | |
| Investment income | | | | | |
| Interest | | | | | |
| Short-term securities | **$ 254** | $ 1,688 | $ 1,340 | $ 321 | $ 1,676 |
| Bonds *(Note 5)* | **12,095** | 11,462 | 11,334 | 15,618 | 17,888 |
| Miscellaneous income | **–** | – | 13 | 16 | 4 |
| | **12,349** | 13,150 | 12,687 | 15,955 | 19,568 |
| Dividends | **15,308** | 10,019 | 8,125 | 6,708 | 5,427 |
| | **27,657** | 23,169 | 20,812 | 22,663 | 24,995 |
| Increase in market values of investments | **92,903** | 66,733 | 47,349 | 58,916 | (44,975) |
| Contributions *(Note 1)* | | | | | |
| Employees' | **1,711** | 1,652 | 1,697 | 1,781 | 1,860 |
| Sponsors' | **453** | 5,198 | 7,536 | 498 | 598 |
| Transfers | **–** | – | – | – | 272 |
| | **2,164** | 6,850 | 9,233 | 2,279 | 2,730 |
| **Total increase in net assets** | **122,724** | 96,752 | 77,394 | 83,858 | (17,250) |
| **Decrease in net assets** | | | | | |
| Superannuation allowances | **41,708** | 40,486 | 39,543 | 39,451 | 38,693 |
| Transfers and refunds on terminations | **552** | 167 | 788 | – | 62 |
| Administrative expenses *(Note 6)* | **1,969** | 1,860 | 1,772 | 1,642 | 1,519 |
| **Total decrease in net assets** | **44,229** | 42,513 | 42,103 | 41,093 | 40,274 |
| **Changes in net assets** | **78,495** | 54,239 | 35,291 | 42,765 | (57,524) |
| **Net assets available for benefits, beginning of year** | **773,092** | 718,853 | 683,562 | 640,797 | 698,321 |
| **Net assets available for benefits, end of year** | **$ 851,587** | $ 773,092 | $ 718,853 | $ 683,562 | $ 640,797 |

# Glossary

**Active Plan member**
Plan member making (or deemed to be making) regular contributions to the Plan, including those on an approved leave of absence (with or without pay), those receiving benefits from a short-term illness and injury plan or approved long-term disability plan, and those who are no longer required to contribute.

**Actuarial assumptions**
Estimates of future events that will affect a plan's costs for future employee's benefits. Examples of these estimates are: rates of return on Plan assets, termination rates, retirement age, mortality, dependency status, future salary and benefit levels.

**Actuarial valuation**
Prepared by an actuary to determine the financial status of the Plan. It considers the value of Plan assets and determines whether the contribution rates are adequate.

**Actuary**
Professional trained in technical aspects of pensions.

**Ad hoc**
Contrived purely for the purpose in hand rather than planned carefully in advance.

**Asset allocation**
The dividing of assets among different categories such as equities, bonds and international investments.

**Bridge benefits**
A temporary pension to supplement the regular lifetime pension. Payable from the early retirement age; ending upon the age when OAS full CPP benefits start.

**Bonds**
Long-term debt instrument from a company that provides regular interest payments to the bond-holder and repays the face value at maturity.

**Consumer price index**
The consumer price index measures monthly and yearly changes in the cost of 300 goods and services commonly bought by Canadians. If the combined cost of this "basket" of items goes up, then there has been inflation. The greater the increase, the higher the inflation rate has become. The pension is indexed to the cost of living, and the consumer price index is one of the factors used to calculate annual cost of living increases for pension benefits.

**Counterparty**
An individual or organization with whom one transacts business.

**Custodian**
Holds assets for safekeeping for the Plan, may collect income and dividends and do simple reporting on assets. The custodian does not have fiduciary responsibility.

**Deferred pension**
A pension payable at a later date, either because the Plan member terminates employment before the earliest date at which the pension may begin, or because the Plan member chooses to have the pension commence at a later date. For example, a Plan member may choose to defer a pension in order to later receive an unreduced pension.

**Defined benefit plan**
Pension plan that provides a defined benefit based on a formula including factors such as years of service and average earnings.

**Defined contribution plan**
Pension plan that specifies the amount to be contributed to the plan. Contributions and time period determine the benefit.

**Equities**
Common stock or ownership in a company.

**Fair value**
Dollar amount that two parties consider appropriate for a transaction.

**Funding**
The systematic depositing of current service contributions and special payments into the pension fund.

**Futures**
Contractual agreements to either buy or sell an asset at a specified price and date in the future.

**Governance**
The decision-making structures and supporting policies and procedures that enable an organization to achieve its pension objectives and discharge its pension obligations to its legal owners and others.

**Index**
Method of measuring the investment manager's performance through benchmarks of similar assets.

**Investment advisor**
Provides analytical review of the total fund, asset classes and the investment managers' performance, relative to peers and Plan benchmarks.

**Investment manager**
Devises and implements an investment strategy within mandates.

**Money market**
A market for short term debt instruments.

**Notional value**
Amount to which a rate or price is applied in order to calculate the exchange of cash flows.

**Plan sponsor**
Employer sponsoring the pension plan.

**Pooled funds**
Group of individual securities managed by an investment manager.

**Securities**
Stocks, bonds and notes that give evidence to and assure the fulfillment of a commitment.

**Standard & Poor's (S&P) 500**
Comparison portfolio made up of common stocks that are used to measure performance of other stock funds.

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